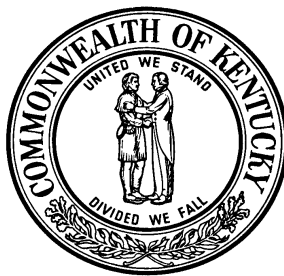


**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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FRANKFORT, KY 40601-1817
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LINCOLN COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Lincoln County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions, based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Lincoln County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$9,796,493 as of June 30, 2010. The fiscal court had unrestricted net assets of \$1,955,943 in its governmental activities as of June 30, 2010, with total net assets of \$9,788,946. In its business-type activities, total net cash and cash equivalents were \$7,547 with total net assets of \$7,547. The fiscal court had total debt principal as of June 30, 2010 of \$4,680,183 with \$316,707 due within the next year.

Report Comment:

2010-01 Internal Controls And Policies And Procedures Should Be Implemented To Ensure Jail Canteen Revenues And Expenditures Are Properly Accounted For And Reported

Deposits:

The fiscal court's deposits as of June 30, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$262,363

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable William Demrow, Former Lincoln County Judge/Executive

Honorable Ronald Gilbert, Former Lincoln County Judge/Executive

Honorable James Adams, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lincoln County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lincoln County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2011 on our consideration of Lincoln County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-01 Internal Controls And Policies And Procedures Should Be Implemented To Ensure Jail Canteen Revenues And Expenditures Are Properly Accounted For And Reported

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 25, 2011

LINCOLN COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

William Demrow	Former County Judge/Executive
Ronald Gilbert	Former County Judge/Executive
James Adams	Magistrate
David Faulkner	Magistrate
Johnnie Padgett	Magistrate
Terry Wilcher	Magistrate

Other Elected Officials:

Daryl Day	County Attorney
William Gooch	Jailer
George Spoonamore, IV	County Clerk
Teresa Reed	Circuit Court Clerk
Curt Folger	Sheriff
David Gambrel	Property Valuation Administrator
Farris Marcum	Coroner

Appointed Personnel:

Teresa Padgett	County Treasurer
Pat Young	Occupational Tax Collector
Leanette Houchell	Finance Officer

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LINCOLN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

LINCOLN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,294,223	\$ 7,547	\$ 1,301,770
Notes Receivable	81,071		81,071
Total Current Assets	1,375,294	7,547	1,382,841
Noncurrent Assets:			
Notes Receivable	580,710		580,710
Capital Assets - Net of Accumulated Depreciation			
Land	2,429,598		2,429,598
Land Improvements	347,789		347,789
Buildings	4,453,066		4,453,066
Equipment	1,010,752		1,010,752
Vehicles	246,776		246,776
Infrastructure Assets - Net of Depreciation	4,025,144		4,025,144
Total Noncurrent Assets	13,093,835		13,093,835
Total Assets	14,469,129	7,547	14,476,676
LIABILITIES			
Current Liabilities:			
Revenue/General Obligation Bonds	132,830		132,830
Financing Obligations Payable	183,877		183,877
Total Current Liabilities	316,707		316,707
Noncurrent Liabilities:			
Revenue/General Obligation Bonds	2,738,421		2,738,421
Financing Obligations Payable	1,625,055		1,625,055
Total Noncurrent Liabilities	4,363,476		4,363,476
Total Liabilities	4,680,183		4,680,183
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	7,832,942		7,832,942
Restricted For:			
Debt Service	61		61
Unrestricted	1,955,943	7,547	1,963,490
Total Net Assets	\$ 9,788,946	\$ 7,547	\$ 9,796,493

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,213,692	\$ 66,025	\$ 273,702	\$ 2,500
Protection to Persons and Property	1,149,713	663,811	175,115	
General Health and Sanitation	351,453	347,933	93,185	7,500
Social Services	101,226			
Recreation and Culture	401,782	83,153	10,323	36,010
Roads	1,345,444		314,183	1,221,416
Other Transportation Facilities and Services			838	
Debt Service	304,230			
Capital Projects	513,249			
Total Governmental Activities	6,380,789	1,160,922	867,346	1,267,426
Business-type Activities:				
Jail Canteen	37,623	35,073		
Total Business-type Activities	37,623	35,073		
Total Primary Government	\$ 6,418,412	\$ 1,195,995	\$ 867,346	\$ 1,267,426

General Revenues:

Taxes:	
Real Property Taxes	
Personal Property Taxes	
Motor Vehicle Taxes	
Occupational License Taxes	
Other Taxes	
Excess Fees	
Miscellaneous Revenues	
Accrued Interest Received	
Total General Revenues and Transfers	
Change in Net Assets	
Net Assets - Beginning (Restated)	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,871,465)	\$	\$ (1,871,465)
(310,787)		(310,787)
97,165		97,165
(101,226)		(101,226)
(272,296)		(272,296)
190,155		190,155
838		838
(304,230)		(304,230)
(513,249)		(513,249)
(3,085,095)		(3,085,095)
	(2,550)	(2,550)
	(2,550)	(2,550)
(3,085,095)	(2,550)	(3,087,645)
611,372		611,372
25,231		25,231
156,108		156,108
1,188,918		
399,409		399,409
20,200		20,200
275,712		275,712
15,943		15,943
2,692,893		1,503,975
(392,202)	(2,550)	(394,752)
10,181,148	10,097	10,191,245
\$ 9,788,946	\$ 7,547	\$ 9,796,493

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Parks and Recreation Fund	
ASSETS					
Cash and Cash Equivalents	\$ 101,337	\$ 75,957	\$ 18,320	\$ 21,443	.
Total Assets	<u>101,337</u>	<u>75,957</u>	<u>18,320</u>	<u>21,443</u>	:
FUND BALANCES					
Reserved for:					
Encumbrances	2,047	20,013	16,293		
Unreserved:					
General Fund	99,290				
Special Revenue Funds		55,944	2,027	21,443	
Debt Service Fund					.
Total Fund Balances	<u>\$ 101,337</u>	<u>\$ 75,957</u>	<u>\$ 18,320</u>	<u>\$ 21,443</u>	:

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Occupational Tax Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 979,391	\$ 61	\$ 97,714	\$ 1,294,223
979,391	61	97,714	1,294,223

			38,353
			99,290
979,391		97,714	1,156,519
	61		61
\$ 979,391	\$ 61	\$ 97,714	\$ 1,294,223

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,294,223
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Notes Receivable Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	661,781
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	17,732,708
Accumulated Depreciation	(5,219,583)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,808,932)
Bonds	(2,871,251)
Net Assets Of Governmental Activities	<u>\$ 9,788,946</u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Parks and Recreation Fund
REVENUES				
Taxes	\$ 951,296	\$	\$	\$
Excess Fees	20,200			
Licenses and Permits	57,593			
Intergovernmental	353,562	1,472,232	696,136	
Charges for Services	327,298		46,986	80,978
Miscellaneous	226,333	5,325	57,674	8,142
Interest	402	306	65	65
Total Revenues	<u>1,936,684</u>	<u>1,477,863</u>	<u>800,861</u>	<u>89,185</u>
EXPENDITURES				
Current:				
General Government	837,464			
Protection to Persons and Property	80,557		1,005,620	
General Health and Sanitation	317,631	25,395		
Social Services	86,442			
Recreation and Culture	34,799			306,104
Roads		1,231,915		
Debt Service:	240,111			
Capital Projects	300,226	197,472		
Administration	608,548	326,018	239,025	39,317
Total Expenditures	<u>2,505,778</u>	<u>1,780,800</u>	<u>1,244,645</u>	<u>345,421</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(569,094)</u>	<u>(302,937)</u>	<u>(443,784)</u>	<u>(256,236)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	651,500	496,142	450,000	270,500
Transfers To Other Funds	(218,117)	(230,700)		
Total Other Financing Sources (Uses)	<u>433,383</u>	<u>265,442</u>	<u>450,000</u>	<u>270,500</u>
Net Change in Fund Balances	(135,711)	(37,495)	6,216	14,264
Fund Balances - Beginning (Restated)	237,048	113,452	12,104	7,179
Fund Balances - Ending	<u>\$ 101,337</u>	<u>\$ 75,957</u>	<u>\$ 18,320</u>	<u>\$ 21,443</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Occupational Tax Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 1,429,623	\$	\$	\$ 2,380,919
			20,200
			57,593
	124,857	110,215	2,757,002
141			455,403
1,893		2,160	301,527
15,042		63	15,943
<u>1,446,699</u>	<u>124,857</u>	<u>112,438</u>	<u>5,988,587</u>
82,040			919,504
			1,086,177
			343,026
			86,442
			340,903
		76,864	1,308,779
	271,833		511,944
		15,551	513,249
<u>31,289</u>			<u>1,244,197</u>
<u>113,329</u>	<u>271,833</u>	<u>92,415</u>	<u>6,354,221</u>
<u>1,333,370</u>	<u>(146,976)</u>	<u>20,023</u>	<u>(365,634)</u>
229,200		8,640	2,105,982
<u>(1,804,140)</u>	<u>146,975</u>		<u>(2,105,982)</u>
<u>(1,574,940)</u>	<u>146,975</u>	<u>8,640</u>	
(241,570)	(1)	28,663	(365,634)
1,220,961	62	69,051	1,659,857
<u>\$ 979,391</u>	<u>\$ 61</u>	<u>\$ 97,714</u>	<u>\$ 1,294,223</u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LINCOLN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ (365,634)

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay 599,161

Depreciation Expense (819,031)

Assets disposed of, net book value (14,412)

Payment of Receivable Provides for Current Financial Resources to Government Funds, while at the Government-wide Level, a Reduction of the Receivable Occurs. These Transactions Have No Effect on Net Assets (66,303)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations (255,000)

Amortization of Refunding Loss (8,670)

Amortization of Bond Issuance Discounts (3,500)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Bond Principal Payments 145,000

Financing Obligations Principal Payments 396,187

Change in Net Assets of Governmental Activities \$ (392,202)

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LINCOLN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

LINCOLN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Cash and Cash Equivalents	\$ 7,547
Total Assets	<u>7,547</u>
Net Assets	
Unrestricted	7,547
Total Net Assets	<u><u>\$ 7,547</u></u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 35,073
Total Operating Revenues	<u>35,073</u>
Operating Expenses	
Cost of Sales	17,556
Educational and Recreational	13,842
Personnel Costs	4,800
Miscellaneous	<u>1,425</u>
Total Operating Expenses	<u>37,623</u>
Operating Income (Loss)	<u>(2,550)</u>
Change In Net Assets	(2,550)
Total Net Assets - Beginning	<u>10,097</u>
Total Net Assets - Ending	<u><u>\$ 7,547</u></u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LINCOLN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 12,958
Cash Receipts from the Sale of Goods and Services	21,758
Cash Receipts from Miscellaneous Sources	350
Cash Payments for Educational and Recreational Costs	(13,842)
Cash Payments for Miscellaneous Expenses	(1,425)
Cash Payments to Employees	(4,800)
Cash Payments to Vendors for Goods and Services	(17,556)
Net Cash Provided By Operating Activities	<u>(2,557)</u>
Cash Flows From Investing Activities	
Interest Received	<u>7</u>
Net Cash Provided By Investing Activities	<u>7</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,550)
Cash and Cash Equivalents - July 1	<u>10,097</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 7,547</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	<u>\$ (2,550)</u>
Net Cash Provided By Operating Activities	<u><u>\$ (2,550)</u></u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

LINCOLN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u> </u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 25,788</u>
Total Assets	<u> 25,788</u>
Liabilities	
Amounts Held In Custody For Others	<u> 25,788</u>
Total Liabilities	<u><u> 25,788</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lincoln County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Lincoln County Public Properties Corporation

The Lincoln County Public Properties Corporation (Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Corporation as part of the reporting entity, and the activity has been blended with that of the Fiscal Court.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Lincoln County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lincoln County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lincoln County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Parks and Recreation Fund – This fund accounts for the revenue and expenses of the parks and recreation of the county. The primary source of revenue for this fund is registration fees and sponsorships for the various sports.

Occupational Tax Fund – This fund is used to account for the collection of occupational tax. The primary source of revenue for this fund is occupational employment tax and net profit tax.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Public Properties Corporation Fund – The primary purpose of this fund is to account for the activities of the Public Properties Corporation (PPC), a blended component unit of the county. The PPC issued debt to build a judicial center and to finance site development of a new countywide recreational park. The Department for Local Government does not require the fiscal court to report or budget these funds to them.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grant Fund, and Law Enforcement Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Parks and Recreation Fund, Occupational Tax Fund, Local Government Economic Assistance Fund, Federal Grant Fund, and Law Enforcement Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,500	10-50

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Lincoln County Fiscal Court: Senior Citizen Center and McKinney Water District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Lincoln County Fiscal Court: Bluegrass 911 Central Communications Center and Solid Waste.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2010, Lincoln County's bank balances were exposed to custodial credit risk because the bank did not adequately collateralize the county's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$262,363

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,429,598	\$	\$	\$ 2,429,598
Total Capital Assets Not Being Depreciated	2,429,598			2,429,598
Capital Assets, Being Depreciated:				
Buildings	5,677,531			5,677,531
Land Improvements	435,310			435,310
Equipment	1,585,755	127,786	(58,500)	1,655,041
Vehicles	549,250	5,225		554,475
Infrastructure	6,514,603	466,150		6,980,753
Total Capital Assets Being Depreciated	14,762,449	599,161	(58,500)	15,303,110
Less Accumulated Depreciation For:				
Buildings	(1,115,553)	(108,912)		(1,224,465)
Land Improvements	(60,730)	(26,791)		(87,521)
Equipment	(564,207)	(124,170)	44,088	(644,289)
Vehicles	(267,150)	(40,549)		(307,699)
Infrastructure	(2,437,000)	(518,609)		(2,955,609)
Total Accumulated Depreciation	(4,444,640)	(819,031)	44,088	(5,219,583)
Total Capital Assets, Being Depreciated, Net	10,317,809	(219,870)	(14,412)	10,083,527
Governmental Activities Capital Assets, Net	<u>\$ 12,747,407</u>	<u>\$ (219,870)</u>	<u>\$ (14,412)</u>	<u>\$ 12,513,125</u>
<u>Governmental Activities:</u>				
General Government			\$ 72,516	
Protection to Persons and Property			68,761	
General Health and Sanitation			8,427	
Recreation and Culture			91,165	
Social Services			14,784	
Roads, Including Depreciation of General Infrastructure Assets			<u>563,378</u>	
Total Depreciation Expense - Governmental Activities			\$ 819,031	

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt

A. First Mortgage Revenue Refunding Bonds

On October 1, 2004, the Public Properties Corporation issued \$1,800,000 in First Mortgage Revenue Refunding Bonds, Series 2004, for the construction of a judicial center with interest rates ranging between 2.00% and 4.60%. The Corporation issued the bonds to advance refund \$1,700,000 of the outstanding Series 1996 First Mortgage Revenue Bonds with interest rates ranging between 5.00% and 6.50%. The Corporation used the net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1996 series bonds. As a result, that portion of the 1996 series bonds is considered defeased, and the Corporation has removed the liability from its accounts.

Additionally, as a result of this refunding, the Fiscal Court has recognized a deferred loss on the refunding in the amount of \$185,700. This loss represents the difference between the reacquisition prices relative to the Series 1996 bonds outstanding (including the 102% call premium) and the net carrying amount of the Series 1996 bonds (including the unamortized discount and debt issuance costs). The unamortized deferred loss on the refunding is reported in the accompanying Statement of Net Assets as a deduction from the outstanding revenue bonds payable as of June 30, 2010.

As of June 30, 2010, the outstanding principal balance is \$1,435,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2011	\$ 65,000	\$ 57,908
2012	70,000	55,860
2013	70,000	53,480
2014	75,000	51,100
2015	80,000	48,400
2016-2020	425,000	195,920
2021-2025	530,000	99,715
2026	120,000	5,520
Totals:	<u>\$ 1,435,000</u>	<u>\$ 567,903</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

B. General Obligation Improvement Bonds

On September 1, 2004, the Lincoln County Fiscal Court authorized its General Obligation Improvement Bonds, Series 2004, in the principal amount of \$2,000,000 for the purpose of financing site development of a new countywide recreational park. Principal payments are due annually by August 1 and interest payments are due bi-annually on February 1 and August 1.

As of June 30, 2010, the outstanding principal balance is \$1,625,000. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 80,000	\$ 64,575
2012	85,000	61,933
2013	90,000	58,978
2014	90,000	55,805
2015	95,000	52,404
2016-2020	530,000	202,241
2021-2025	<u>655,000</u>	<u>76,733</u>
Totals:	<u>\$ 1,625,000</u>	<u>\$ 572,669</u>

C. First Southern Veterans Park

On May 2, 2003, the Lincoln County Fiscal Court entered into a 10-year agreement with KACO Leasing Trust for the acquisition of land for the First Southern Veterans Park in the amount of \$114,493. Principal and interest payments are due monthly.

The outstanding principal balance as of June 30, 2010 is \$39,821. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 12,615	\$ 1,414
2012	13,263	891
2013	<u>13,943</u>	<u>341</u>
Totals:	<u>\$ 39,821</u>	<u>\$ 2,646</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

D. Emergency Communications Building

On August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for the purchase of an Emergency Communication building facility in the amount of \$65,000. Principal payments are due annually on January 20 and interest payments are due monthly. On that same date, Lincoln County Fiscal Court and Lincoln County Emergency Communication Commission (the Commission) entered into a verbal agreement, which stated that for and in consideration of the Commission being allowed to utilize properties as set up in the KACO leasing trust agreement with the County, the Commission will reimburse the County all payments as set out in the County's KACO Leasing Trust Agreement. In May 2008, E911 merged with Garrard County. At this time, the Commission was no longer liable for this debt and Fiscal Court took responsibility for the remaining balance; however, the Commission still owes the Fiscal Court \$5,426 from fiscal year 2007-2008.

The outstanding principal balance as of June 30, 2010 is \$10,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2011	\$ 5,000	\$ 322
2012	<u>5,000</u>	<u>119</u>
Totals:	<u>\$ 10,000</u>	<u>\$ 441</u>

E. Emergency Communications Building Renovation (Financing Obligation and Note Receivable)

On February 14, 2005, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for renovations to the Emergency Communications Building in the amount of \$130,295. Principal payments are due annually by July 20 and interest payments are due monthly. The County subsequently entered into a verbal agreement with the Emergency Communication Commission (the Commission), which reimburses the County for the payments. As of June 30, 2010, the Fiscal Court is due payments from the Commission from fiscal year 2008 forward in the amount of \$19,316.

The outstanding principal balance as of June 30, 2010 is \$105,295. Future principal and interest requirements are:

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

E. Emergency Communications Building Renovation (Financing Obligation and Note Receivable)
(Continued)

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 5,000	\$ 4,451
2012	5,000	4,244
2013	5,000	4,018
2014	5,000	3,801
2015	5,000	3,580
2016-2020	35,000	14,222
2021-2025	<u>45,295</u>	<u>3,901</u>
Totals:	<u>\$ 105,295</u>	<u>\$ 38,217</u>

F. City of Stanford – (Financing Obligation and Note Receivable)

On April 6, 1996, the Lincoln County Fiscal Court entered into a 23-year agreement with KACO Leasing Trust for the City of Stanford's Pine Hall Water Project in the amount of \$525,000. Principal payments are due annually on January 20 and interest payments are due monthly. On that same date, Lincoln County Fiscal Court and the City of Stanford entered into an agreement which state the City of Stanford will reimburse the County all payments as set out in the County's KACO Leasing Trust agreement.

The outstanding principal balance as of June 30, 2010 is \$275,000. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 25,000	\$ 16,390
2012	26,000	14,815
2013	28,000	13,153
2014	29,000	11,393
2015	30,000	9,570
2016-2019	<u>137,000</u>	<u>18,083</u>
Totals:	<u>\$ 275,000</u>	<u>\$ 83,404</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

G. Fire Districts - (Financing Obligation and Notes Receivable)

1. Fire Truck

On December 6, 2001, the Lincoln County Fiscal Court entered into a 10-year agreement with KACO Leasing Trust for the purchase of a fire truck in the amount of \$124,796. Principal payments are due annually by January 20 and interest payments are due monthly. The County subsequently entered into a verbal agreement with the Fire District, which reimburses the County for the payments.

The outstanding principal balance as of June 30, 2010 is \$29,020. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2011	\$ 14,225	\$ 1,139
2012	14,795	426
Totals:	<u>\$ 29,020</u>	<u>\$ 1,565</u>

2. Fire Pumper Trucks

On April 22, 2003, the Lincoln County Fiscal Court entered into a 10-year agreement with KACO Leasing Trust for the purchase of two fire pumper trucks in the amount of \$243,622. Principal and interest payments are due monthly. The County subsequently entered into a verbal agreement with the Fire District, which reimburses the County for the payments.

The outstanding principal balance on June 30, 2010 is \$81,830. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2011	\$ 26,940	\$ 2,930
2012	28,090	1,776
2013	26,800	566
Totals:	<u>\$ 81,830</u>	<u>\$ 5,272</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

G. Fire Districts - (Financing Obligation and Notes Receivable) (Continued)

3. Fire Station

On August 31, 2004, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for the acquisition of land for a County fire station in the amount of \$190,000. Principal and interest payments are due monthly. The County subsequently entered into a verbal agreement with the Fire District, which reimburses the County for the payments.

The outstanding principal balance on June 30, 2010 is \$146,843. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 7,769	\$ 5,901
2012	8,090	5,588
2013	8,425	5,245
2014	8,774	4,895
2015	9,137	4,528
2016-2020	51,681	16,635
2021-2025	52,967	5,059
Totals:	<u>\$ 146,843</u>	<u>\$ 47,851</u>

H. Senior Citizens Center

On May 16, 2001, the Lincoln County Fiscal Court entered into a 20-year agreement with KACO Leasing Trust for the construction of a Senior Citizens Center in the amount of \$640,000. Principal payments are due annually by January 20 and interest payments are due monthly.

The outstanding principal balance as of June 30, 2010 is \$425,000. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 30,000	\$ 23,436
2012	30,000	21,732
2013	35,000	19,909
2014	35,000	17,920
2015	35,000	15,932
2016-2020	210,000	47,038
2021	50,000	1,657
Totals:	<u>\$ 425,000</u>	<u>\$ 147,624</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

I. Courthouse Annex

On June 24, 1999, the Lincoln County Fiscal Court entered into a 20-year agreement with KADD Financing Trust for the construction costs to complete the second floor of the courthouse annex, financed through Fifth Third Bank. In accordance with an agreement between the Administrative Office of the Courts (AOC) and the Lincoln County Fiscal Court dated April 15, 1998, AOC agreed to participate in providing part of the costs of completing the second floor of the courthouse annex through use allowance payments. As of October 1, 2004, AOC agreed to provide all of the costs associated with the KADD Revenue Bonds directly to the bond trustee.

On December 1, 2009, the Lincoln County Fiscal Court refinanced this lease with KADD Financing Trust through The Bank of New York Mellon Trust Company, due to Fifth Third Bank no longer participating with this program. The beginning balance of the new lease was \$230,000. Principal payments are due annually on May 20, and interest payments are due bi-annually on May 20 and November 20.

The outstanding principal balance as of June 30, 2010 is \$215,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2011	\$ 20,000	\$ 9,475
2012	20,000	8,775
2013	20,000	7,975
2014	20,000	7,175
2015	20,000	6,375
2016-2020	115,000	18,600
Totals:	<u>\$ 215,000</u>	<u>\$ 58,375</u>

J. Sheriff's Cruisers

On June 2, 2008, the Lincoln County Fiscal Court entered into a note agreement with Daimler Chrysler Financial Services Americas LLC for the purchase of four Sheriff Cruisers for a total of \$116,567. Principal and interest payments are due monthly.

The outstanding principal balance as of June 30, 2010 is \$52,329. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2011	\$ 25,191	\$ 3,950
2012	27,138	1,411
Totals:	<u>\$ 52,329</u>	<u>\$ 5,361</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-Term Debt (Continued)

K. Park Lighting

On October 6, 2008, the Lincoln County Fiscal Court entered into a 27-year agreement with KACO Leasing Trust for lighting in the county park in the amount of \$425,000. Principal payments are due annually by January 20 and interest payments are due annually.

The outstanding principal balance as of June 30, 2010 is \$405,000. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 10,000	\$ 16,697
2012	10,000	16,315
2013	10,000	15,885
2014	10,000	15,478
2015	10,000	15,068
2016-2020	55,000	69,192
2021-2025	75,000	55,592
2026-2030	80,000	40,226
2031-2035	100,000	21,552
2036-2037	45,000	2,679
	<u>\$ 405,000</u>	<u>\$ 268,684</u>

L. County Clerk Hardware Upgrade (Financing Obligation and Note Receivable)

On October 13, 2009, the Lincoln County Fiscal Court entered into a 10-year agreement with KACO Leasing Trust to finance the upgrade of computer equipment for the County Clerk's Office in the amount of \$25,000. Principal and interest payments are due monthly. The County subsequently entered into a sublease agreement with the County Clerk in which the County Clerk reimburses the County for the payments.

The outstanding principal balance as of June 30, 2010 is \$23,794. Future principal and interest requirements are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,137	\$ 1,142
2012	2,226	1,054
2013	2,319	960
2014	2,416	864
2015	2,517	763
2016-2020	12,179	2,037
Totals	<u>\$ 23,794</u>	<u>\$ 6,820</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Changes in Long-term Debt

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue/General					
Obligation Bonds	\$ 3,205,000	\$	\$ 145,000	\$ 3,060,000	\$ 145,000
Revenue Bonds					
Financing Obligations	1,950,119	255,000	396,187	1,808,932	183,877
	5,155,119	255,000	541,187	4,868,932	328,877
Unamortized Discount	(55,699)		(3,500)	(52,199)	(3,500)
Unamortized Deferred Amount on Refunding	(145,220)		(8,670)	(136,550)	(8,670)
Governmental Activities					
Long-term Liabilities	<u>\$ 4,954,200</u>	<u>\$ 255,000</u>	<u>\$ 529,017</u>	<u>\$ 4,680,183</u>	<u>\$ 316,707</u>

Note 6. Changes in Notes Receivable

Notes receivable activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Receivables Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Emergency Communication					
Commission	\$ 124,295		\$ 19,000	\$ 105,295	\$ 5,000
City of Stanford	299,000		24,000	275,000	25,000
Fire Districts	304,789		47,096	257,693	48,934
County Clerk		25,000	1,207	23,793	2,137
Governmental Activities					
Notes Receivables	<u>\$ 728,084</u>	<u>\$ 25,000</u>	<u>\$ 91,303</u>	<u>\$ 661,781</u>	<u>\$ 81,071</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Uncollected Notes Receivable

The Lincoln County Fiscal Court entered into verbal agreements with the Emergency Communications Commission (the Commission) on two separate occasions, in which the Commission agreed to reimburse the Fiscal Court for lease payments for the Emergency Communication Building and Building Renovations (including equipment). During fiscal year 2007-2008, the Commission stopped reimbursing the Fiscal Court for these payments, resulting in \$24,742 of uncollected notes receivable still due the Fiscal Court from the Commission (\$5,427 for the building and \$19,315 for renovations/equipment).

Note 8. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$84,381 in interest on financing obligations and \$126,833 in interest on bonds and notes.

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$318,398, FY 2009 was \$258,050, and FY 2010 was \$307,174.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 10. Deferred Compensation

The Lincoln County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2010, Lincoln County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Prior Period Adjustments

The beginning balance for governmental net assets was increased by \$85,282. This net increase was the result of 1) the Jail Fund beginning cash balance being decreased \$3,528 to include a prior year payroll transfer that was not made until fiscal year 2010; 2) capital asset beginning balances were increased by \$88,810 to include capital assets not included in year of acquisition.

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LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 920,000	\$ 920,000	\$ 951,296	\$ 31,296
Excess Fees	61,239	61,239	20,200	(41,039)
Licenses and Permits	58,022	58,022	57,593	(429)
Intergovernmental Revenue	365,311	365,311	353,562	(11,749)
Charges for Services	306,050	306,050	327,298	21,248
Miscellaneous	179,352	179,352	226,333	46,981
Interest	1,000	1,000	402	(598)
Total Revenues	1,890,974	1,890,974	1,936,684	45,710
EXPENDITURES				
General Government	889,947	922,562	837,464	85,098
Protection to Persons and Property	105,812	100,191	80,557	19,634
General Health and Sanitation	396,377	407,061	317,631	89,430
Social Services	94,081	95,040	86,442	8,598
Recreation and Culture	82,950	93,887	34,799	59,088
Debt Service	410,488	413,875	240,111	173,764
Capital Projects	537,568	767,849	300,226	467,623
Administration	721,888	665,207	608,548	56,659
Total Expenditures	3,239,111	3,465,672	2,505,778	959,894
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,348,137)	(1,574,698)	(569,094)	1,005,604
OTHER FINANCING SOURCES (USES)				
Financing Obligations	487,568	512,568		(512,568)
Transfers From Other Funds	835,569	835,569	651,500	(184,069)
Transfers To Other Funds			(218,117)	(218,117)
Total Other Financing Sources (Uses)	1,323,137	1,348,137	433,383	(914,754)
Net Changes in Fund Balance	(25,000)	(226,561)	(135,711)	90,850
Fund Balance - Beginning	25,000	210,281	237,048	26,768
Fund Balance - Ending	\$ 0	\$ (16,281)	\$ 101,337	\$ 117,618

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,160,248	\$ 1,534,170	\$ 1,472,232	\$ (61,938)
Miscellaneous	7,100	7,100	5,325	(1,775)
Interest	1,000	1,000	306	(694)
Total Revenues	1,168,348	1,542,270	1,477,863	(64,407)
EXPENDITURES				
General Health and Sanitation	21,000	25,396	25,395	1
Roads	1,389,994	1,581,938	1,231,915	350,023
Capital Projects	50,000	247,922	197,472	50,450
Administration	392,300	371,960	326,018	45,942
Total Expenditures	1,853,294	2,227,216	1,780,800	446,416
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(684,946)	(684,946)	(302,937)	382,009
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	619,946	619,946	496,142	(123,804)
Transfers To Other Funds			(230,700)	(230,700)
Total Other Financing Sources (Uses)	619,946	619,946	265,442	(354,504)
Net Changes in Fund Balance	(65,000)	(65,000)	(37,495)	27,505
Fund Balance - Beginning	65,000	65,000	113,452	48,452
Fund Balance - Ending	\$ 0	\$ 0	\$ 75,957	\$ 75,957

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 809,368	\$ 809,368	\$ 696,136	\$ (113,232)
Charges for Services	87,143	87,143	46,986	(40,157)
Miscellaneous	56,250	56,250	57,674	1,424
Interest	200	200	65	(135)
Total Revenues	<u>952,961</u>	<u>952,961</u>	<u>800,861</u>	<u>(152,100)</u>
EXPENDITURES				
Protection to Persons and Property	1,114,035	1,123,935	1,005,620	118,315
Administration	<u>320,620</u>	<u>310,896</u>	<u>239,025</u>	<u>71,871</u>
Total Expenditures	<u>1,434,655</u>	<u>1,434,831</u>	<u>1,244,645</u>	<u>190,186</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(481,694)</u>	<u>(481,870)</u>	<u>(443,784)</u>	<u>38,086</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>451,694</u>	<u>451,694</u>	<u>450,000</u>	<u>(1,694)</u>
Total Other Financing Sources (Uses)	<u>451,694</u>	<u>451,694</u>	<u>450,000</u>	<u>(1,694)</u>
Net Changes in Fund Balance	(30,000)	(30,176)	6,216	36,392
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>12,104</u>	<u>(17,896)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (176)</u>	<u>\$ 18,320</u>	<u>\$ 18,496</u>

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$	\$	\$ 80,978	\$ 80,978
Miscellaneous			8,142	8,142
Interest			65	65
Total Revenues			89,185	89,185
EXPENDITURES				
Recreation and Culture	279,738	281,662	306,104	(24,442)
Administration	39,450	41,246	39,317	1,929
Total Expenditures	319,188	322,908	345,421	(22,513)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(319,188)	(322,908)	(256,236)	66,672
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	312,188	312,188	270,500	(41,688)
Total Other Financing Sources (Uses)	312,188	312,188	270,500	(41,688)
Net Changes in Fund Balance	(7,000)	(10,720)	14,264	24,984
Fund Balance - Beginning	7,000	7,000	7,179	179
Fund Balance - Ending	\$ 0	\$ (3,720)	\$ 21,443	\$ 25,163

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,200,000	\$ 1,200,000	\$ 1,429,623	\$ 229,623
Charges for Services	50	50	141	91
Miscellaneous	3,100	3,100	1,893	(1,207)
Interest	12,000	12,000	15,042	3,042
Total Revenues	1,215,150	1,215,150	1,446,699	231,549
EXPENDITURES				
General Government	85,602	87,316	82,040	5,276
Administration	158,917	147,203	31,289	115,914
Total Expenditures	244,519	234,519	113,329	121,190
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	970,631	980,631	1,333,370	352,739
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	75,442	75,442	229,200	153,758
Transfers To Other Funds	(2,281,743)	(2,281,743)	(1,804,140)	477,603
Total Other Financing Sources (Uses)	(2,206,301)	(2,206,301)	(1,574,940)	631,361
Net Changes in Fund Balance	(1,235,670)	(1,225,670)	(241,570)	984,100
Fund Balance - Beginning	1,235,670	1,235,670	1,220,961	(14,709)
Fund Balance - Ending	\$ 0	\$ 10,000	\$ 979,391	\$ 969,391

LINCOLN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Parks and Recreation Fund

In prior years, Parks and Recreation had their own bank account and handled their own funds. This activity was not included in the County's budget. During the year, the county started handling the Parks and Recreation receipts and disbursements through the Parks and Recreation Fund. However, they did not amend their budget for this activity.

LINCOLN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

LINCOLN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	LGEA Fund	Federal Grant Fund	Law Enforcement Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 50,422	\$ 36,010	\$ 11,282	\$ 97,714
Total Assets	<u>50,422</u>	<u>36,010</u>	<u>11,282</u>	<u>97,714</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>50,422</u>	<u>36,010</u>	<u>11,282</u>	<u>97,714</u>
Total Fund Balances	<u>\$ 50,422</u>	<u>\$ 36,010</u>	<u>\$ 11,282</u>	<u>\$ 97,714</u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

LINCOLN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	LGEA Fund	Federal Grant Fund	Law Enforcement Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 71,705	\$ 38,510	\$	\$ 110,215
Miscellaneous		2,160		2,160
Interest	52		11	63
Total Revenues	<u>71,757</u>	<u>40,670</u>	<u>11</u>	<u>112,438</u>
EXPENDITURES				
Roads	76,864			76,864
Capital Projects		15,551		15,551
Total Expenditures	<u>76,864</u>	<u>15,551</u>		<u>92,415</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,107)</u>	<u>25,119</u>	<u>11</u>	<u>20,023</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		8,640		8,640
Total Other Financing Sources (Uses)		<u>8,640</u>		<u>8,640</u>
Net Change in Fund Balances	(5,107)	33,759	11	28,663
Fund Balances - Beginning	<u>55,529</u>	<u>2,251</u>	<u>11,271</u>	<u>69,051</u>
Fund Balances - Ending	<u>\$ 50,422</u>	<u>\$ 36,010</u>	<u>\$ 11,282</u>	<u>\$ 97,714</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable William Demrow, Former Lincoln County Judge/Executive
Honorable Ronald Gilbert, Former Lincoln County Judge/Executive
Honorable James Adams, Lincoln County Judge/Executive
Members of the Lincoln County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 25, 2011. Lincoln County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lincoln County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lincoln County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is also described in the accompanying comment and recommendation as item 2010-01.

The Lincoln County Judge/Executive's and the County Jailer's responses to the finding identified in our audit are included in the accompanying comment and recommendation. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

May 25, 2011

**LINCOLN COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2010

**LINCOLN COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2010

FINANCIAL STATEMENT FINDINGS

2010-01 Internal Controls And Policies And Procedures Should Be Implemented To Ensure Jail Canteen Revenues And Expenditures Are Properly Accounted For And Reported

The General Assembly in recent years has given the jailer responsibility for collecting certain monies. Unless otherwise specified by statute, the handling of these funds should be in accordance with the requirement for handling all county funds. KRS 68.210 provides guidelines for minimum accounting and reporting standards as prescribed by the state local finance officer.

KRS 68.210 includes, but is not limited to, the following:

- Pre-numbered three part receipt forms should be issued for all receipts. Original to be given to payor, copy to be attached in sequential order to daily check-out-out or daily deposit record, and copy to remain in file. Voided receipts should be so marked, copies one and two kept in numerical order with check-out records, and copy three remaining in file (KRS 64.840);
- Books of original entry for receipts and expenditures and utilization of daily check-out sheets;
- Daily deposits intact into a federally insured banking institution;
- Disbursements by check only; and
- Monthly bank reconciliations.

Based on audit procedures performed, auditors determined the following:

- Daily check-out sheets are not being prepared;
- Daily deposits are not being made, instead deposits are made on a bi-weekly basis;
- Receipts collected by the Jailer are given to the Circuit Clerk in cash instead of by check;
- Monthly bank reconciliations are being prepared, however, the balance in the inmate account was not reconciled to provide a breakdown of inmate balances, etc.

Auditors also noted a large outstanding accounts receivable balance due the Jail Canteen account. Per observation and inquiry, the Jail does not attempt to collect on these amounts when an inmate is released.

Additionally, a lack of internal controls over receipts, along with inadequate policies/procedures and management oversight exist. The lack of documentation, internal controls, policies/procedures, and management oversight could result in misappropriation of assets and/or fraudulent financial reporting.

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, and to protect employees in the normal course of performing their duties, we recommend the Jailer implement policies/procedures, internal controls and provide management oversight to ensure:

- Daily receipts for all monies received are batched and posted to the daily check-out sheet;
- Daily deposits are made intact to a federally insured banking institution;
- All payments, including transfers to the Circuit Clerk, are made by check instead of cash;
- Balances in the inmate account are reconciled to determine the balance each inmate has in the account; and
- Jail attempts to collect outstanding accounts receivable balances from current and former inmates.

Judge/Executive's Response: No response.

Jailer's Response: We will follow your recommendations.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LINCOLN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

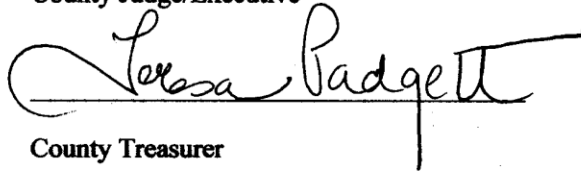
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LINCOLN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Lincoln County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "Bill Lemoine", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Teresa Padgett", written over a horizontal line.

County Treasurer

